PANGEO PHARMA INC.

PHARMEX Industries Inc.

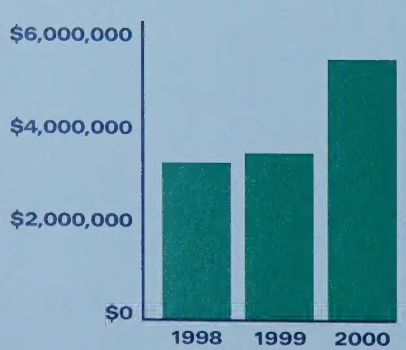
mg

2000 ANNUAL REPORT

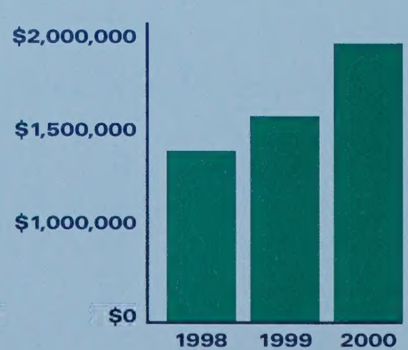
CORPORATE HIGHLIGHTS

Operating Results	Fiscal 2000 $	Fiscal 1999 $
Sales	5,669,012	3,618,962
Income (Loss) Before Amortization and Interest	(453,683)	321,979
Loss From Continuing Operations	(1,181,461)	(200,207)
Discontinued Operations	-	(162,027)
Net Loss	(1,181,461)	(343,734)
Depreciation and Amortization	462,515	420,130
Capital Expenditures	966,888	1,059,286
Financial Position, Year End		
Total Assets	4,985,993	3,044,993
Total Debt (Non-Convertible)	2,091,351	1,672,760
Share Capital Deficit	518,954	(528,534)
Data Per Common Share		
Net Loss Per Common Share	(0.04)	(0.02)
Other Totals at Year End		
Common Shares Outstanding (Basic)	30,847,317	
Common Shares Outstanding (Fully Diluted)	45,286,673	

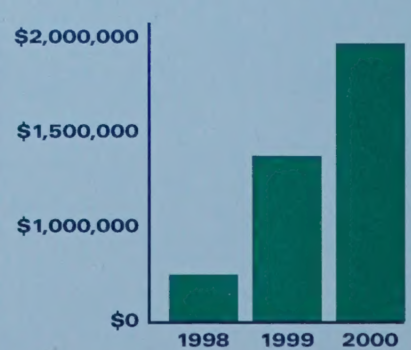
Sales



Gross Margin



Capital Assets



LETTER TO SHAREHOLDERS

To Our Shareholders,

Last year was a year of continued growth for Pharmex. Our strategy of forward integration into the finished dosage acetaminophen business resulted in over 90% growth in our North American revenues. The company developed and launched additional private label products and expanded its contract manufacturing granulation business. Worldwide revenues grew 57% over fiscal 1999. This growth in fiscal 2000 (year-ended January 31, 2000) established the foundation for the transformation of Pharmex into the fastest growing Canadian pharmaceutical company for the last 12 months and the foreseeable future.

Delivering on our commitments

We achieved and exceeded our goals in fiscal 2000. Last year Pharmex management committed to launch LIFE® brand acetaminophen, obtain new contract manufacturing granulation accounts, introduce new products, acquire new chain store finished dosage accounts, expand shareholder base, obtain listing on a more senior exchange and identify a suitable company for acquisition.

1. **LIFE® brand.** We successfully shipped our first LIFE® brand acetaminophen, caffeine and codeine product to Shoppers Drug Mart® in May 1999. Pharmex's exceptional service to Shoppers Drug Mart® over the last 8 months has resulted in over 200% growth for the LIFE® brand acetaminophen business for the coming year.

2. **New products.** Pharmex launched Guaifenesin DTH and Acetaminophen in 325mg and 500mg tablets for the North American market, as well as certain OTC tablets for the export market. The acetaminophen 500mg tablets were shipped to the Hy & Zel's group, while our export products were shipped in the last quarter of the year to international markets.

3. **New granulation accounts.** Pharmex obtained two new significant DTH granulation accounts, one in the U.S. and one in Canada.

4. **New chain store accounts.** By the end of fiscal 1999 we made significant progress in introducing our products into new store chains in Canada. Pharmex acetaminophen products are now scheduled to be sold into the Zellers pharmacies nationwide in private label.

5. **Expanding shareholder base.** In November of 1999, Pharmex filed a prospectus and became a reporting issuer in BC, Alberta and Ontario. Towards the end of fiscal 2000, we applied for a listing on the new Canadian Venture Exchange (CDNX) and such application was approved.

6. **Acquisitions.** In the last quarter of fiscal 2000 the company entered into an agreement to acquire Formulex Canada in Montreal, Quebec.

The above achievements will result in significant growth in the company's top and bottom line. We expect that our growth, **outside of acquisitions**, to be in excess of 200% in the coming year.

Fiscal 2001 update:

By the end of the second quarter Pharmex will be the dominant player in the private label acetaminophen business in Canada. The company will supply all of Shoppers Drug Mart®, Zellers and Hy & Zel's stores with their store brand acetaminophen products. In addition, Pharmex has started shipments of acetaminophen and other OTC export products to international markets. The combined additional business for the fiscal 2001 is expected to increase revenues by about 200%.

In the first quarter of fiscal 2001 (February – April 2000) the company announced agreements for acquisition of two companies located in Montreal, Quebec and one in Scarborough, Ontario. To-date, Pharmex completed the acquisition of Formulex Canada (May 11, 2000) and is currently finalizing arrangements to acquire Novopharm Quebec and Wampole Canada Inc.

Vision for growth:

With the acquisition of Formulex Canada, Novopharm Quebec and Wampole Canada, Pharmex's low cost integrated manufacturing strategy can be expanded into new product lines and new markets. Pharmex is thus transformed into a **specialty pharmaceutical company** with over 200 products for sale in North America and overseas markets. Specialized contract manufacturing combined with the value-added product development expertise will allow Pharmex to service three segments of the pharmaceutical market:

- **Private Label** through our Canapharm plant in Perth, Ontario
- **Brand Vitamins and Herbals** through our Formulex Canada plant in Montreal
- **Prescription pharmaceuticals** through Novopharm Quebec's plant in Montreal

Road to profitability and future plans

Critical revenue mass for profitability has been reached with the expansion of Pharmex's current private label acetaminophen business. The acquisition of Formulex Canada and Wampole and Novopharm Quebec will further increase our top and bottom line. Pharmex's combined revenues will significantly increase in the coming months by utilizing the new sales distribution channels from the acquired companies. Moreover, the profitability of each unit is significantly enhanced by the operational synergies and cost reduction plan already in progress.

Pharmex management is confident that the coming year will be a year of tremendous growth in our business which will result in significant creation of shareholder value.

On behalf of the Board of Directors of

Pharmex Industries:

A. D

Ahmad Doroudian, Ph.D.
Chairman of the Board and
Chief Executive Officer

M D & A

Analysis of Continuing Operations

Sales

Sales in fiscal year-ended January 31, 2000 were a record $5,669,012 up 57% from the previous year.

Sales in North America were $4,035,076 up 90% from 1999. Although growth in sales in North America was strong due to the company's continued expansion into private label acetaminophen, two factors prevented the company from fully achieving the forecasted revenue targets:

i) Decreased contract manufacturing of acetaminophen granulation for North American generic manufacturers at the beginning of the year.

ii) Time lags in the signing of certain private label contracts due to industry factors that were beyond the control of Pharmex. The most significant contributing factor was the self-imposed moratorium on signing of new contracts at our largest customer during the course of their sale and subsequent transfer of ownership. Since closing, Pharmex's business with this customer has continued its previously strong growth trend.

Romanian sales grew to $1,633,936 up 9% from 1999. The increase in Romanian sales was principally due to the company's organic growth of existing products and the addition of new products. Pharmex launched 4 new products for the Romanian market last year and now sells 42 licensed products into over 1800 pharmacies in Romania.

Cost of sales and gross profit

In conjunction with the company's growth strategy to aggressively grow top-line sales, the focus for FY 2000 and beyond is to drive volume sales in the North American market. Management has made a clear growth strategy decision to purse a higher volume albeit lower margin business with the end goal being a much greater contribution to net profit. Accordingly, while gross profits in dollar terms increased to $1,907,939, an increase of 20% year-over-year, in percentage terms they decreased from 44% of sales to 34% in line with expectations. More specifically, the two key divers of the gross margin percentage change were:

i) The higher margin Romanian sales as a percentage of overall sales is much smaller now than it was one year ago because almost all of the company's growth is now coming from the North America market.

ii) The initial private label finished dosage products that were launched have the lowest gross margins of our planned acetaminophen line. In some cases, margins are significantly lower than our historic gross profits on a percentage basis and this is, in some cases, the cost of entering the business. This drop in gross profit percentage had been expected.

Going forward, our existing higher margin businesses are expected to maintain current sales and margins levels. The growth for our North American business is significant as we continue to move into finished dosage products and provides a broader choice of acetaminophen and other OTC products. For North America, our revenues are expected to grow substantially and our margins, which range by product, are generally expected to average 35%.

General and administrative expenses

On a percentage basis General and administrative expenses decreased from 46% of revenue in FY 1999 to 40% of revenues in the most recent year. In dollar terms, these expenses increased to $2,264,959 from $1,677,234 in the previous year, an increase of $587,725. This dollar increase is due to the company's investment in its future growth, the most significant segment of which is its investment in quality personnel and increased infrastructure in order to properly manage its growth. Costs related to the company's investment in people increased by approximately $676,000, which includes salaries, administrative office costs and expenses. Also, costs related to the company's leasing of fixed assets increased by $77,262. In contrast, costs related to exchange of foreign currency fell by $200,801 due to increased monitoring of foreign exchange opportunities for non-American dollar currencies by management.

Overall, the increase in people, administrative and infrastructure costs related to growing the private label business in Canada into a sizable business have been incurred and we are confident that profitability for this part of our business is imminent.

Loss before amortization and interest

Loss before amortization and interest in 2000 was $ 433,683 versus $321,979 in 1999. This loss represents the significant investment that the company has made in people, administrative systems and infrastructure related to growing the private label business in Canada. Although the net income resulted in a significant decrease from the previous year, this can be considered an anomaly due to the company's private label investment rather than an indication of the company's growth prospects. The investment items noted above, increased license fees, research costs related to finished dosage and set-up of new administrative offices represent spending in anticipation of significant growth for the company. These investment areas totaled $860,645.

Net loss from continuing operations

On a consolidated basis the company had a loss from continuing operations of $1,161,461 up substantially from the previous year's loss of $200,207. Net loss per share was $0.04 versus $0.02 in the previous year.

Loss for the year for Canada was $869,985 versus $125,785 for 1999 reflective of the increased level of infrastructure and personnel investment outlined above. The company's Romanian operations were profitable and had net income for the year of $81,492 versus a loss in the previous year of $74,422 in accordance with its stage of development.

Corporate Outlook

The months just prior to year-end and the months following year-end have provided significant opportunities for the company. Including its recently closed acquisition on May 11, 2000 of Formulex Canada and its pending acquisitions of Wampole Canada and Novopharm Quebec, the company's revenues for the fiscal year-ending January 31, 2001 are expected to exceed $40 million. On an annualized basis these revenues exceed $57 million or 10 times Pharmex revenues for it last fiscal year.

Pharmex's pre-existing businesses which include specialty raw materials/granulation, private label finished dosage and Pharmex Romania are growing significantly on a consolidated basis and are expected to exceed $15 million in profitable sales for the fiscal year-ending January 31, 2001. This anticipated growth represents a 263% year-over-year increase and is driven largely by the company's North American finished dosage business.

Our base granulation business has expanded significantly such that the company expects that third party sales in this business will exceed $2.5 million for next fiscal year. Romanian sales are expected to remain stable at $1.5 million and our private label sales are expected to grow to in excess of $11.5 million. Already, Pharmex is the market share leader by chain store count for private label acetaminophen in Canada. Last fiscal year the company supplied approximately 470 pharmacies in Canada. For fiscal year ending January 31, 2001 the company has secured private label contracts to supply products to more than 1270 pharmacies in Canada. The company continues to gain momentum in this category of products and attract new pharmacy chain customers in North America.

The company's acquisition of Formulex Canada represents a significant leap forward and provides Pharmex with a broad line of products to complement its existing line of acetaminophen products. With Formulex Canada, the company now has in excess of 72 DIN products available for sale in Canada. Formulex Canada also has a sizable export business and provides contract manufacturing services to some of the world's largest pharmaceutical companies. Formulex Canada has experienced more than 80% compounded annual sales growth over the last five years and with the addition of Pharmex's management and distribution channels the company expects continued strong growth for the Formulex Canada business.

Following the closing of the pending acquisition of Wampole Canada and Novopharm Quebec the company expects to manage the transition period in an effort to maximize synergies from these operations while continuing with its internal growth plans and acquisition strategy.

Segmented Information

Note 13 of the Consolidated Financial Statements contains a break-out of the segmented information for readers.

Additional Financial Information

Cash Provided by Continuing Operations totaled a net loss of $698,946 in fiscal 2000, versus the previous year's cash gain of $99,465. This decrease was mostly due to the company's investment in people and infrastructure to carry out its growth plan.

The company completed an equity financing in July, 1999 for Series D convertible debentures for $1,500,000. These funds were used to fund the company's increased working capital and capital expenditure needs in order to complete its launch to Shoppers Drug Mart® which commenced on May 27, 2000. These debentures were subsequently converted into 4,255,319 common shares in March 2000. In addition, the company completed a special warrant financing in November 1999 for $595,000 which represented 1,700,000 common shares and 850,000 warrants exercisable at $0.45. The special warrant financing was conducted so that the company met the original listing requirements of the CDNX stock exchange for which it received approval in March 2000. Pharmex is listed for trading under the symbol PIL.

The company also put in place additional debt financing with the National Bank of Canada. The total new package was $970,000, which brought the total available bank debt to $2,220,000. Of the $970,000 of new available debt, $600,000 is additional operating line of credit and $370,000 is additional term loan for plant improvements.

The company's strategy of expanding by acquisition and its pending acquisitions of Wampole Canada and Novopharm Quebec will require additional capital injections into the company. The company has entered into discussions with various financial institutions to access financing for its future growth phases.

Foreign Currency Risk

The company does not purchase derivative products or use foreign exchange contracts to protect itself against foreign exchange risks. The company has determined that for its size of transactions and current business mix it will not purchase derivative hedging products. Rather, the company will endeavor to align its assets, its purchasing and its receivables in a manner which, to the extent possible, reduces future losses from foreign exchange fluctuations (see Note 2 in Consolidated Financial Statements).

Interest Rate Risk

The company has a mix of fixed and floating rate interest bearing debts. The company does not enter into interest rate swaps or other interest rate hedge instruments to reduce the risk of a rise in interest rates. Given floating rate debt levels at year-end, a 1% rise in interest rates will cost the company less than $29,000 on an annual basis.

Forward-Looking Statements

This report contains forward-looking statements, which may be identified by the use of words like "plans", "expects", "will", "anticipates", "intends", "projects", "estimates" or other words of similar meaning. All statements that address expectations or projections about the future, including statements about the company's strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized.

CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2000 and 1999

Auditor's Report

To the Shareholders of Pharmex Industries Inc.

We have audited the consolidated balance sheets of Pharmex Industries Inc. as at January 31, 2000 and 1999 and the consolidated statements of deficit, operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2000 and 1999 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been consistently applied.

"DALE, MATHESON, CARR-HILTON"

CHARTERED ACCOUNTANTS
Vancouver, B.C.
May 10, 2000

CONSOLIDATED BALANCE SHEETS

JANUARY 31, 2000 AND 1999

	2000 $	1999 $
ASSETS		
CURRENT ASSETS		
Accounts receivable	1,428,030	818,725
Share subscriptions receivable (Note 9)	9,150	3,300
Inventories (Note 4)	1,312,054	679,445
Other assets	27,147	30,433
Prepaid expenses	34,691	4,267
	2,811,072	1,536,170
CAPITAL ASSETS (Note 5)	1,918,119	1,375,652
INTANGIBLES, net of accumulated amortization of $300,000 (1999 - $273,386)	-	26,614
DEFERRED DEVELOPMENT COSTS (Note 6)	173,966	106,557
DEFERRED FINANCING COSTS (Note 3)	82,836	-
	4,985,993	3,044,993
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	575,688	36,017
Accounts payable and accrued liabilities	1,644,563	1,076,490
Loan payable (Note 11)	-	316,230
Current portion of long-term debt (Note 8)	207,426	104,758
	2,427,677	1,533,495
LONG-TERM DEBT (Note 8)	2,039,362	2,040,032
	4,467,039	3,573,527
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 9)	5,885,230	3,656,281
DEFICIT	(5,366,276)	(4,184,815)
	518,954	(528,534)
	4,985,993	3,044,993

COMMITMENTS (Note 10)

Approved by the Board:

"George James" Director "Ahmad Doroudian" Director

See Accompanying Notes

CONSOLIDATED STATEMENT OF DEFICIT

YEARS ENDED JANUARY 31, 2000 AND 1999

	2000 $	1999 $
DEFICIT, beginning of year	(4,184,815)	(3,822,581)
LOSS FOR THE YEAR	(1,181,461)	(362,234)
DEFICIT, end of year	(5,366,276)	(4,184,815)

See Accompanying Notes

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED JANUARY 31, 2000 AND 1999

	2000 $	1999 $
SALES	5,669,012	3,618,962
COST OF SALES	3,761,073	2,026,828
GROSS PROFIT	1,907,939	1,592,134
GENERAL AND ADMINISTRATIVE EXPENSES (Schedule)	2,284,959	1,677,234
INCOME (Loss) Before other items, amortization and interest	(377,020)	(85,100)
OTHER ITEMS		
Other income (Note 11)	-	429,205
Other expenses	(76,663)	(22,126)
	(76,663)	407,079
INCOME BEFORE AMORTIZATION AND INTEREST	(453,683)	321,979
AMORTIZATION	(462,515)	(420,130)
LOSS BEFORE INTEREST	(916,198)	(98,151)
INTEREST		
Long-term debt	(191,557)	(55,092)
Other	(73,706)	(46,964)
	(265,263)	(102,056)
LOSS FROM CONTINUING OPERATIONS	(1,181,461)	(200,207)
DISCONTINUED OPERATIONS (Note 14)	-	(162,027)
NET LOSS	(1,181,461)	(362,234)
LOSS PER COMMON SHARE (Note 2)		
Continuing operations	(0.04)	(0.01)
Discontinued operations	(0.00)	(0.01)
NET LOSS PER SHARE	(0.04)	(0.02)

See Accompanying Notes

CONSOLIDATED SCHEDULE OF ADMINISTRATIVE EXPENSES

YEARS ENDED JANUARY 31, 2000 AND 1999

	2000 $	1999 $
GENERAL AND ADMINISTRATIVE EXPENSES		
Administration and operating costs	451,705	268,826
Automobile	13,167	9,831
Directors fees	20,000	-
Equipment lease and repair	119,655	42,393
Foreign exchange	152,497	353,298
License fees	14,800	6,460
Management fees	-	30,000
Professional fees	163,791	157,863
Quality assurance	61,850	-
Rent	252,224	215,031
Research	-	25,428
Salaries and wages	848,320	428,675
Shareholder communications	64,472	91,821
Travel	122,478	47,608
	2,284,959	1,677,234

See Accompanying Notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

YEARS ENDED JANUARY 31, 2000 AND 1999

	2000 $	1999 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Loss for year	(1,181,461)	(362,234)
Items not affecting cash		
Amortization	462,515	443,708
Loss on writedown of capital assets	-	17,991
	(718,946)	99,465
Changes in non-cash working capital		
Accounts receivable	(609,305)	(318,405)
Share subscriptions receivable	(5,850)	10,450
Inventories	(614,609)	(247,100)
Other assets	3,286	(7,371)
Prepaid expenses	(30,424)	2,281
Accounts payable and accrued liabilities	568,073	562,761
	(1,407,775)	102,081
FINANCING ACTIVITIES		
Loan payable	(316,230)	316,230
Long-term debt	1,666,747	1,200,890
Issuance of share capital	664,200	47,751
	2,014,717	1,564,871
INVESTING ACTIVITIES		
Purchase of capital assets	(966,888)	(1,059,288)
Due to related parties	-	(340,329)
Deferred costs	(179,725)	(106,557)
	(1,146,613)	(1,506,174)
INCREASE (DECREASE) IN CASH	**(539,671)**	**160,778**
DEFICIENCY , beginning of year	(36,017)	(196,795)
DEFICIENCY, end of year	(575,688)	(36,017)

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JANUARY 31, 2000 AND 1999

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Company is engaged in the development, production, marketing and distribution of a broad range of pharmaceutical products through its subsidiaries in Canada and Romania.
The Company's shares trade on the Canadian Venture Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Pharmex Holdings Ltd. ("Pharmex Holdings"), Canapharm Manufacturing Inc. ("Canapharm"), Industrias Pharmex S.A. de C.V. ("Industrias Pharmex"), and Pharmex Rom Industry S.R. L., ("Pharmex Rom").

b) Revenue Recognition

Revenue from the sale of products is recognized at the time the related goods are shipped from the Company's facilities.

c) Inventories

Inventories of finished products and work-in-progress are valued at the lower of cost, determined on the first-in-first-out basis, and net realizable value. Inventories of materials are valued at the lower of cost, determined on the first-in-first-out basis, and replacement cost.

d) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets at the following rates:

Building	4%	Declining balance
Equipment	30%	Declining balance
Leasehold improvements	10 years	Straight line
Furniture and fixtures	20%	Declining balance
Computer equipment	30%	Declining balance
Automotive equipment	30%	Declining balance

2. SIGNIFICANT ACCOUNTING POLICIES - Cont'd

e) Intangible Assets

Intangible assets are recorded at cost and consist of proprietary formulas used to manufacture the Company's pharmaceutical products. Amortization is provided for on a straight-line basis over three years.

f) Foreign Currency Translation

Any foreign currency denominated accounts of the Company, as well as the financial statements of the Company's foreign operations, all of which are considered integrated, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated to Canadian dollars at year end exchange rates, non-monetary assets and liabilities at exchange rates prevailing at the dates of the transactions, and revenues and expenses at the average exchange rate during the year. Gains and losses arising from foreign currency translation are included in the consolidated statement of operations.

g) Use of Estimates and Risk Management

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The Company and its subsidiaries have accounts receivable and debt obligations due in foreign currencies. Foreign exchange gains or losses will result from fluctuations in foreign currency exchange rates. The Company currently has not entered into hedging transactions in respect of foreign currency exposure.

The Company's Romanian subsidiary operates in a developing economy with high rates of inflation and significant currency devaluation. There is a consequent risk of loss in value in respect to net monetary assets held in Romanian Lei (ROL). Material exchange restrictions and controls exist relating to converting ROL into other currencies. At present, there is no market for conversion of ROL in foreign currency outside Romania.

h) Financial Instruments

The fair market values of the Company's cash, accounts receivable, bank indebtedness and accounts payable approximate their carrying amounts because of their immediate or short-term maturity.

The Company's carrying amounts for its long-term debt are estimated to approximate their fair market values based on financing terms available to the Company on the measurement dates.

2. SIGNIFICANT ACCOUNTING POLICIES – Cont'd

i) Uncertainty due to Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

j) Comparative Figures

Certain comparative figures from the prior year have been reclassified to conform with the current year's presentation.

3. DEFERRED FINANCING COSTS

	2000 $	1999 $
Cost	96,425	-
Accumulated amortization	13,589	-
	82,836	-

Deferred financing cost are related to the raising of the $1.5million convertible debenture (Note 8). Subsequent to year end the debenture was converted into common shares and the remaining deferred financing costs will be expensed in 2001.

4. INVENTORIES

	2000 $	1999 $
Raw Materials	398,046	254,068
Work-in-progress	225,554	88,655
Finished goods	636,247	312,755
Packaging	52,207	23,967
	1,312,054	679,445

5. CAPITAL ASSETS

			2000 $	1999 $
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	5,272	-	5,272	5,272
Building	342,823	22,628	320,195	277,842
Equipment	1,830,064	653,605	1,176,459	933,201
Leasehold improvements	394,710	20,658	374,052	125,526
Furniture and fixtures	33,890	11,203	22,687	20,870
Computer equipment	31,644	12,190	19,454	12,941
	2,638,403	720,284	1,918,119	1,375,652

Included in capital assets is packaging with a net book value of $50,430 that was transferred to Canapharm from the Company's closed Mexican subsidiary. The equipment was not set up for use at year end and therefore no amortization was taken on it during the year. Amortization will recommence once the equipment is put into use.

6. DEFERRED DEVELOPMENT COSTS

	2000 $	1999 $
Deferred development costs incurred	189,857	106,557
Less: current portion	15,891	-
	173,966	106,557

Deferred costs consist primarily of wages, supplies and other services relating to the setup of the finished dosage business. Amortization of deferred costs is to be on a straight line basis over three years.

7. BANK INDEBTEDNESS

The Company has an operating line of credit of up to $750,000 and a letters of credit facility of up to $600,000 from the National Bank of Canada. The line of credit is payable on demand and bears interest at the bank's prime rate plus 1.75%, payable monthly. The Company has provided an assignment of inventory and signed a general security agreement covering all personal property owned including equipment and receivables and intellectual property.

8. LONG-TERM DEBT

	2000 $	1999 $
National Bank of Canada		
Term loan bearing interest at prime + 2%, repayable in monthly payments of $1,780 plus interest. Due November 30,2001	38,800	57,500
National Bank of Canada		
Term loan bearing interest at prime + 2.25%, repayable in monthly payments of $6,335 plus interest. Due Jan.31, 2003	234,320	-
Keith Machinery Corp.		
A series of promissory notes repayable in monthly payments of $8,905 ($6,029 U.S.) principal and interest. Due August 15, 2001	127,507	222,540
A series of promissory notes repayable in monthly payments of $3,164 ($2,142 U.S.) Principal and interest. Due July 16, 2002	46,161	-
Convertible debentures		
Series A i)	-	616,000
Series B i)	-	250,000
Series C ii)	300,000	998,750
Series D iii)	1,500,000	-
	2,246,788	2,144,790
Less: current portion	207,426	104,758
	2,039,362	2,040,032

i) The debentures were converted during the year into common shares. (Note 9)

ii) The debenture has a repayment date of May 1, 2000, is convertible at $0.2625 per unit and bears interest at prime + 1.5%. Each unit consists of one common share and one-half of a warrant to purchase an additional common share for an additional $0.35 per common share exercisable for two years from the date of conversion of the debenture. During the year $698,750 of the Series C debentures were converted into common shares (Note 9)

iii) The debenture has a repayment date of July 15,2003, is convertible at $0.3525 per share and bears interest at 11% per annum compounded and payable monthly.

In exchange for the financing the debenture holder is entitled to one seat on the Company's Board of Directors. This will entitle them to $40,000 annually in directors fees and 800,000 stock options to acquire shares at $0.50 per share. These options are exercisable until June 15, 2006.

The debenture holders have subordinated their claims to the National Bank as security and therefore these amounts continue to be shown as long-term. Subsequent to year end convertible debentures that were outstanding at year end were converted to common shares. (Note 15)

Principal repayments over the next five years:

	$
2001	207,426
2002	155,213
2003	84,150

9. SHARE CAPITAL

	2000		1999	
	Shares	$ Amount	Shares	$ Amount
Authorized				
100,000,000 common shares without par value				
Issued and outstanding				
Balance, beginning of year	23,422,081	3,656,280	23,252,914	3,608,530
Issued during the year				
For cash				
Exercise of stock options	632,666	104,900	100,000	27,000
Exercise of warrants	-	-	69,167	20,750
Conversion of debentures (i)	6,792,570	1,564,750	-	-
Balance, end of year	30,847,317	5,325,930	23,422,081	3,656,280
Special warrants (ii)	-	559,300	-	-
Balance, end of year	30,847,317	5,885,230	23,422,081	3,656,280

(i) During the year the Company converted its Series A, Series B and $689,750 of its Series C debentures.

Stock Options	Number of Options	Exercise Price	Expiry Date
	1,345,800	$0.15	December 31, 2000
	1,000,000	$0.40	August 31, 2001
	40,000	$0.35	December 31, 2001
	1,150,000	$0.42	April 21, 2004
	800,000	$0.50	June 15, 2006

Warrants	Number of Warrants	Exercise Price	Expiry Date
	570,978	$0.35	November 22, 2001

Escrow Shares

As at January 31, 2000, a total of 226,082 issued common shares are held in escrow. Subsequent to year end the escrow shares were cancelled and returned to treasury. (Note 15)

10. COMMITMENTS

The Company has entered into a lease with 1120725 Ontario Ltd. for the rental of manufacturing facilities in Perth, Ontario for its subsidiary, Canapharm. The lease, which expires on October 31, 2002 requires minimum payments of $93,828 per year.

The Company has entered into a 24 month lease for the rental of office space in Oakville, Ontario. The lease which expires November 30, 2001 requires minimum payments of $543 per month.

As part of the acquisition of Canapharm, the Company has agreed to pay commissions at the rate of 3% to Chorney Chemical Company (1994) Inc. ("Chorney", a related party, until November 14, 1998), on sales of Canapharm products. Commissions for the year ended January 31, 2000 amounted to $81,482 (1999 - $50,388).

Canapharm has entered into a five year agreement with Chorney, expiring March 1, 2001, for the supply of raw materials. Under this agreement, Canapharm is obligated to purchase all raw materials and chemicals from Chorney on normal commercial terms provided that no source of supply is able to provide the raw materials on a reliable basis at an equal or superior quality at a more competitive price.

11. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions for the year:

	2000 **$**	**1999** **$**
Management fees paid to a company with a common director	-	30,000
Rent paid to a company with a common director	-	15,450
Accounting fees paid to a company with a common director	-	4,800
Consulting fees paid to companies controlled by a director	-	1,000
Directors fees	20,000	-
Legal fees paid to an officer and a company controlled by an officer	44,355	-
Interest on debt to companies with a common director	-	6,417

During the year, raw material and inventory amounting to approximately $28,500 (1999 - $ NIL) was purchased from Chorney (Note 10).

The loan payable of $316,230 was provided by a company controlled by a director as bridge financing to purchase machinery. This loan was repaid during the year with interest totalling $6,151.

Included in other income is $ NIL (1999 - $325,249) of forgiveness of debt by a former director and companies controlled by directors and a former director.

Included in subscriptions receivable at year end is $4,650 (1999 - $ NIL) due from directors and officers of the Company.

Included in accounts receivable is $ NIL (1999 - $11,569) due from a director and $138,302 due from a company with a common director (1999 - $139,032) and included in accounts payable is $89,979 (1999 - $11,731) owing to companies with a common director and to a debenture holder who appointed a director.

12. TAX LOSS CARRYFORWARDS

As at January 31, 2000, the Company had approximately $1,768,000 of non-capital losses available to reduce future years income for tax purposes. The potential tax benefits relating to these amounts have not been recognized in the financial statements. These losses expire at varying dates to 2007.

13. SEGMENTED INFORMATION

	Canada $	Romania $	Mexico $	Total $
2000				
Sales to customers outside the enterprise	4,035,076	1,633,936	-	5,669,012
Income (loss) for the year	(1,262,953)	81,492	-	(1,181,461)
Identifiable assets	3,922,532	1,063,461	-	4,985,993
1999				
Sales to customers outside the enterprise	2,119,218	1,499,744	-	3,618,962
Loss for year	(125,785)	(74,422)	(162,027)	(362,234)
Identifiable assets	1,992,597	968,532	83,864	3,044,993

Transfer between geographic segments are accounted for at cost.

14. DISCONTINUED OPERATIONS

	2000 $	1999 $
Income (loss) from discontinued operations	-	(144,036)
Writedown of capital assets	-	(17,991)
	-	(162,027)

During the prior year the Company decided during the year to close down its Mexican subsidiary. During the current year capital assets with a net book value of $50,430 were returned to Canada and inventory worth $29,377 was shipped to Romania for resale.

15. SUBSEQUENT EVENTS

On March 8, 2000 the Company issued 1,700,000 shares and 850,000 share purchase warrants in connection with a prospectus offering to net the treasury $559,300. Each purchase warrant is exercisable until November 15, 2000 to purchase one additional common share at $0.45.

On March 8, 2000 the series C debentures were converted into 1,142,857 shares of the Company and on March 23, 2000 the Series D debenture was converted into 4,255,319 shares of the Company.

On March 13, 2000 all 226,082 escrowed common shares were cancelled and returned to the treasury.

At various dates subsequent to year end the Company issued 408,000 shares on the exercise of warrants and options to net the treasury $213,700.

On May 11, 2000 the directors approved a resolution to acquire 100% of the issued and outstanding shares of 9046-7093 Quebec Inc. ("Formulex Canada") as well as $200,000 8% convertible debentures from the vendors of Formulex Canada. The purchase price of Formulex Canada of $5,718,000 is payable as follows:

$ 5,000	cash at closing
2,098,000	in shares (1,353,548 @deemed value of $1.55/share issued May 10, 2000)
3,365,000	in cash on or before July 10, 2000
250,000	in cash in two years following the closing
$5,718,000	

Formulex Canada owns directly or indirectly all of the outstanding shares of Formulex Canada Inc., Laboratoire O.H. Inc., Medprodex Inc., Pro-Pharmalab Inc. and 50% of the outstanding shares of Pharmavigor Inc.

On May 18, 2000 the Company signed a letter of intent to purchase 100% of the issued and outstanding shares of Wampole Canada Inc. and certain assets used in Novopharm Limited's Quebec Division for a purchase price of $14.6 million payable in cash at closing. As at the audit report date the negotiations were still ongoing and no final agreement had been reached.

Subsequent to year end the Company agreed to acquire all of the issued and outstanding common shares of WHM Trading Inc., a company controlled by a director for nominal consideration.

16. MAJOR CUSTOMERS

During the year sales to the Company's five largest customers amounted to approximately 73% of total sales volume. The Company may be economically dependent on maintenance of sales volume to these customers.

DIRECTORS AND OFFICERS

Directors

Ahmad Doroudian, Ph.D.

Chief Executive Officer and Chairman of the Board of the Company

George James

Vice President and Chief Operating Officer of the Company

Sean Cleary, M.B.A.

Vice President and Chief Financial Officer of the Company

Hamid Doroudian, D.D.S.

President of Pharmex ROM Industry SRL

David Appel, M.A., B.C.L.

President of David Appel Investment Consultants. A Toronto-based investment counseling Company

Robert J. Roy, CA

Director of Merchant Banking, RoyNat Capital Inc., a wholly-owned subsidiary of Scotia Bank

Ron Francisco

President, Eclipse Holdings Ltd. A Toronto-based company specializing in financing small-cap health food and pharmaceutical companies

Officers

Ahmad Doroudian, Ph.D.

Chief Executive Officer and Chairman of the Board

George James

Vice President and Chief Operating Officer

Sean Cleary, M.B.A.

Vice President and Chief Financial Officer

Hamid Doroudian, D.D.S.

President of Pharmex ROM Industry SRL

Marko Maryniak, LL.B.

Vice President, Secretary and General Counsel

Dawn Wilde, CMA

Controller

Audit Committee

Ahmad Doroudian, Ph.D.

David Appel, M.A., B.C.L.

Robert J. Roy, CA.

INFORMATION FOR INVESTORS

Corporate Headquarters

PanGeo Pharma Inc.
65 Dufferin Street
Perth, Ontario
K7H 3A6
Tel: (613) 267-7959
Fax: (613) 267-6945
Web site:
www.pangeopharma.com
Email: thepharm@sprint.ca

Independent Accountants

Dale, Matheson,
Carr-Hilton & Co.
Chartered Accountants
Suite 1700
1140 West Pender Street
Vancouver, British Columbia
V6E 4G1

PricewaterhouseCoopers
Auditors and Accountants
SRL
Union International Centre
11 Ion Campineanu Street
Sector 1, Bucuresti
Romania

Transfer Agent & Registrar

Pacific Corporate Trust Co.
Suite 830
625 Howe Street
Vancouver, British Columbia
V6C 3B8
Tel: (604) 689-9853
Fax: (604) 689-8144
Email: pacific@pctc.com
The Transfer Agent is responsible for shareholder records, transfers, and issuance of share certificates.

2000 Annual and Special General Meeting

July 25, 2000
9:30 AM (local time)
TSE Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario
M5X 1J2

Legal Counsel

Fasken Campbell Godfrey
Barristers & Solicitors
Suite 4200
66 Wellington Street West
Toronto, Ontario
M5K 1N6

Financial Calendar

The Company's year-end is January 31. The Annual Report is mailed in June and Quarterly Reports are mailed in July, September and December.

Stock Information

Listed on the Canadian Venture Exchange (CDNX).

Ticker Symbol: PIL

CUSIP No. 716949102

Change of Address

Registered Shareholders should notify the Company's Transfer Agent and Registrar at the address set out above.

Beneficial Owners should contact their respective brokerage firm to give notice of a change of address.

Chartered Bank

The National Bank of Canada
Suite 408
150 York Street
Toronto, Ontario
M5H 3S5

Equal Opportunity Employer

PanGeo is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age, or disability.

PAN GEO
PHARMA INC.

15